

BUDGET DEVELOPMENT AND REPORTING

A Guide for
IDRC-Assisted Projects



May 1991

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INTRODUCTION

Good financial management is a necessary ingredient for a successful research project. However, IDRC's experience has been that project financial management is an area that, in many cases, could be strengthened considerably through the application of basic budgeting techniques. In line with IDRC's mandate to assist developing-country researchers, the Centre has developed this guide to project budgeting to try to enhance the financial-management knowledge of the project staff in recipient institutions. The guide is intended to provide simple, basic tools that, based on past experience, may be directly useful to managers of research projects. This guide complements "Project Finance and Administration: A Guide to IDRC's Financial Procedures," which covers the Centre's financial philosophy and reporting procedures.

For the prospective grant recipient, the section on budgeting is particularly useful because it provides guidelines for preparing a project budget. Once the project idea has received favourable reaction from IDRC, the detailed budget can be prepared in conjunction with the chosen project methodology. The section on financial reporting provides insight into what is expected once a project proposal is approved.

Although this guide was designed for use in IDRC projects, the principles involved may be applied to projects with other donors as well. **It should be emphasized, however, that there is no intention of imposing the use of this budgeting guide on IDRC recipients. Many institutions have their own, effective, project-budgeting system and, in such cases, the institute's own system could be followed.** The principal objective is to highlight the importance of participatory

financial management as an integral part of project development and execution.

Comments and questions arising from this booklet are most welcome and should be addressed to:

Office of the Treasurer
IDRC
PO Box 8500
Ottawa, CANADA K1G 3H9

or to Regional Controller, Regional Office for

Southeast and East Asia
IDRC
Tanglin PO Box 101
Singapore 9124
REPUBLIC OF SINGAPORE

Eastern and Southern Africa
IDRC
PO Box 62084
Nairobi
KENYA

West and Central Africa
IDRC
BP 11007, CD Annexe
Dakar
SENEGAL

Latin America and the Caribbean
IDRC
Casilla de Correos 6379
Montevideo
URUGUAY

or to Regional Director, Regional Office for

South Asia
IDRC
11 Jor Bagh
New Delhi 110003
INDIA

Middle East and North Africa
IDRC
PO Box 14 Orman
Giza, Cairo
EGYPT

BUDGETING

THE BUDGET PROPOSAL

The budget is a tool for planning and monitoring project funds. It is the part of the project proposal that translates the programmed activities into quantitative and monetary terms. Although the budget is commonly known as a tool for planning, it can also be used to communicate plans, motivate project personnel to act and spend within the plan, and evaluate the project's performance.

THE BUDGET TEAM

If the budget is to be an effective project-management tool and not just a means of estimating funding requirements, it must be prepared carefully. A well-prepared and effective budget should reflect a commitment made through the concerted efforts of the participants involved.

In preparing a research budget proposal, **the participants should include members of the research team** as well as **finance specialists**, particularly the institution's finance officer, and other persons (e.g., purchasing officer) who may give relevant opinions about the budget components and costs.

GENERAL COMPONENTS OF PROJECT BUDGETS

The budget of an IDRC-assisted project consists of two parts: the Recipient-Administered Portion (RAP) and the Centre-Administered Portion (CAP). The components of the budget vary, depending on

the type and complexity of the research. Costs may be covered for salaries and allowances, research expenses, capital equipment, conferences, consultants, training, travel, and publications. Other types of research costs may also be identified and considered for inclusion in the project budget. However, as a matter of policy, IDRC does **not** fund buildings or other similar permanent structures.

Salaries and Allowances

Salaries and allowances may be provided to staff hired specifically for the project; however, IDRC may also provide funds for staff replacement. The budget could include funds for an external project adviser. If the recipient requires IDRC's help to locate an adviser and negotiate the terms and conditions, then the adviser would be paid directly by IDRC.

Research Expenses

Research expenses include operating costs such as those for hiring casual labour or purchasing small tools and implements, materials to build prototypes, fertilizers and field supplies, laboratory chemicals and materials, and other items needed to carry out the research. Information services, some of which are available through the IDRC Library, may also be required during the project. Examples of these services are purchases of books, computerized searches, and periodical subscriptions.

Capital Equipment

Equipment can be included in either the RAP or the CAP. However, IDRC generally prefers that all equipment be bought by the recipient under the RAP. If the equipment is manufactured in a country other than the recipient's and is difficult to obtain (e.g., because of controls on foreign currency or variations in prices), IDRC could assist in issuing the payment to the supplier on behalf of the recipient once all the purchasing procedures have been performed by the recipient. The recipient is responsible for clearing the equipment at customs, and under no circumstances should import duties be charged to IDRC's component of the budget. In most countries, IDRC has agreements allowing for

duty-free import of equipment and supplies used in the projects it supports.

Conferences

Workshops in the country or region might be anticipated to provide a means of sharing research results, to help formulate government policies, to develop further research programs, or to extend the research results to the intended beneficiaries.

Consultants

Depending on the complexity of the issues involved, consultants may be hired to advise the researchers on specific problems that are anticipated.

Training

Short-term training — preferably conducted within the country or region — will be considered for project staff who need it to carry out IDRC-funded research.

Travel

The project may call for researchers to travel either locally or abroad to carry out the research or to exchange research-related information. Some countries restrict the amount of foreign currency that their nationals can take from the country when traveling abroad. IDRC, therefore, may retain this item under the CAP and provide the necessary travel funds as a convenience to recipients.

Publications

Funds may also be allocated for the production of the final project report.

BUDGET PREPARATION

In this guide, it is suggested that the budget be prepared in seven steps.

Study the Sequence of Research Activities and Present Them in an Activity Sheet

An example of a partial **Activity Sheet** is shown in Appendix 1. This is a simple form designed to help the planner specify the activities, put them in

the proper time sequence, and determine the time, location, and number of personnel needed for each activity during project development and implementation. Information is sought about the project's **why, what, when, where, and who**. In filling in the **when** column, it is suggested that this be shown as months before or after the project starts, not as a specific month because the actual start-up date often cannot be determined exactly during the project-development stage.

Chart the Time and Schedule the Activities

An example of a **Time Chart** is shown in Appendix 2. This visually highlights important aspects of the planned activities. If the Time Chart and Activity Sheet are done at the same time, it is easy to verify whether the activities are unnecessarily **crowded** together or are well synchronized.

Schedules of activities can be monitored efficiently during the project-implementation stage because a visual reference is provided. The timing information on the chart is based on the **when** column of the Activity Sheet.

Estimate Costs for Each Activity

Estimating costs is crucial because it determines the appropriate level of project funding. It is a painstaking but essential process where a **team approach** is very important in assuring that **relevant costs are not overlooked or underestimated**. If amounts for such budget items as salaries, supplies, travel, etc., are estimated without careful study or analysis of all of the project research activities, the probability that funds will need to be reallocated from one line item to another during project implementation will increase. If reallocation is necessary, the project will be exposed to greater financial risk that adequate funding will not be available for all phases of the research activity. The more items that are involved in the transfer of funds, the more activities that will be open to the risk of underfunding.

It is suggested that these detailed budgeting procedures be carried out only after the recipient has initial feedback from IDRC that the project idea is

acceptable, thereby ensuring that the effort in preparing a detailed budget is not wasted.

The types and quantities of materials and services must be determined for each activity listed in the Activity Sheet. Costs, **expressed in the national or local currency**, are then estimated for each activity. To make this easier, the use of an **Estimating Worksheet** (Appendix 3) is suggested. Here, activities are listed individually in the order in which they appear in the Activity Sheet, with each activity having its own cost estimate.

Some expenditures cannot be allocated easily to specific activities (e.g., salaries of regular project personnel, rent, and utilities) and thus should be estimated for the whole budget period rather than for each project activity.

The cost components should be worked out very carefully and the unit costs or rates determined appropriately. For instance, "personnel requirements" should identify the type of people needed and their rates of pay based on the institution's salary scales. Travel, whether local or foreign, should identify the possible places to be visited, number of visits planned, and the mode of transport envisioned. The appropriate per diem rates (e.g., those officially used by the institution) and prevailing transport fares are then calculated.

In general, the estimating exercise should quantify the various activities by identifying the specific costs and establishing quantities and unit prices, based on reliable data. These data may be obtained from the organization's accounting records, prevailing government regulations, prevailing salary rates and personnel benefits, current prices for equipment, materials and supplies, the country's published inflation index, etc. For research projects lasting more than 1 year, the estimates should also consider inflation during subsequent years.

Budget revisions during the project require another planning effort and review of activities. However, with careful planning before the start of the project, there may be no need to repeat the process unless it becomes absolutely necessary because of completely unpredictable events.

The effort that goes into project budgeting is well rewarded because it provides an effective management tool to ensure that all stages of the research have adequate funding.

Group Similar Expenditure Items

After estimating the costs for each project activity, the expenditures should be grouped into different categories (usually by nature of the expense, e.g., salaries and allowances, research expenses, travel, capital equipment, conferences, and training), the main consideration being the compatibility to the **recipient institution's own accounting system**. By using the established account/budget headings, accounting and reporting of project expenditures during the implementation stage are greatly simplified. These groupings serve as the basis for preparing the proposed budget.

Prepare the Proposed Budget

After completing account groupings, the **Proposed Budget** (in local currency) can be prepared using the recipient's accounting records (see Appendix 4). The annual budgets are presented along with the total project budget. The budgeted expenditures are classified according to sources of funds to identify the funds requested from IDRC and those coming from local contributions and other sources. In the budget, the recipient institution's local contributions should show only the items needing cash outlay during the project's life. Other contributions in kind by the recipient, such as building facilities, equipment, and existing staff, can be valued by the total amount must be shown only as a footnote. The main criterion for a valuation of a recipient's existing resources is reasonableness. Existing equipment should be depreciated to arrive at its net book value (i.e., acquisition cost less accumulated depreciation). If staff costs are presented, they should be estimated using the expected percentage of time to be spent by the personnel on the project.

The other basic structure of a project's budget is the classification of expenditures into the **Recipient-Administered Portion (RAP)** and the **Centre-Administered Portion (CAP)**.

RAP refers to that part of the budget that will be wholly administered by the recipient. This includes such items as salaries, research expenses, and locally purchased equipment. IDRC releases funds to the recipient on the basis of the RAP and the recipient has full authority to hire project staff, purchase equipment and supplies, and contract services as specified in the budget.

CAP covers those expenditures that, because of their nature, are more easily administered by IDRC. For instance, because of import restrictions or lack of purchasing infrastructure in some countries, it is sometimes more convenient for IDRC to purchase equipment that must be imported. Similarly, for logistical reasons it might be preferable for IDRC to administer international travel or training.

RAP must be expressed in the recipient's local currency because expenses are expected to be incurred and accounted for in that currency during the project's life. (For institutions whose books of accounts are kept in a foreign currency such as United States dollars, local currency would be the foreign currency.) Moreover, because currency exchange rates fluctuate, IDRC can use the prevailing exchange rate at the time of project approval to arrive at the total funding in terms of Canadian dollars (CAD). An indication of the exchange rate, as a footnote to the budget, will serve as the basis for measuring the effects of exchange-rate fluctuations during the life of the project. In a high-inflation environment, the local currency budget is to be expressed in a constant unit, i.e.,

- the budget should be prepared in local currency on the basis of current prices and today's prices be applied to supplies and services in all years of the project and
- the current rate of exchange should be applied to all the years of the project to compute the CAD equivalents.

Situations may arise when it would be more appropriate to prepare two or more separate sets of budgets for one project. This is especially true when two or more institutions are undertaking the research or where there are several widely spread and fairly autonomous research sites belonging to

the same institution. In these cases, subsequent day-to-day administration and financial reporting will be facilitated by this approach.

Plan the Timing of Release of Project Funds

Availability of funds ensures continuity of the project. Therefore, the timing of the release of funds from the donor to the recipient should be planned carefully. In the case of IDRC, funds are usually sent every 6 months. Because commencement of the project normally depends on the initial release of funds, ample time must be allowed in the planning stage to accommodate the time needed for approval of the budget proposal within the institution, within the country, and by IDRC.

Based on the budget, IDRC will prepare a schedule of payments. After the initial payment, the subsequent 6-month releases of funds from IDRC consist of

- **automatic** fund releases consisting of the second, fourth, sixth, and other even-numbered scheduled 6-month payments and
- fund releases dependent on **submission of technical and financial reports** from the recipient. These are releases at the end of 12-month periods and consist of the third, fifth, seventh, and other odd-numbered scheduled 6-month payments. In this regard, proper scheduling of report preparation by the recipient will do much to ensure that releases will not be delayed and the activities of the next stage of the project will not be hampered. IDRC will not release the next payment until any required financial and technical reports have been received and analyzed.

Prepare the Budget Notes

The **Budget Notes** provide a narrative of the assumptions used in the estimates. For instance, on budgeted personnel costs, brief job descriptions of the staff to be hired should be included along with the amount of time they are expected to work on the project and whether local salary rates were used in the computation. For various research expenses, the nature of materials, supplies, and services should be described along with the volume and unit

costs, and an indication of the basis used for any assumptions.

Explanations of travel costs should answer the where, when, why, and by whom questions, and indicate the mode of transport and corresponding fares plus the per-diem rates provided. Budgeted inflation-rate assumptions should be included as well. Explanations of other budgeted expenditures should proceed on a similar basis to inform the donor of the assumptions used and to provide an assurance as to their reasonableness.

SUMMARY

The budget is prepared through the concerted efforts of the project staff, finance officers, and other relevant staff working as a team. To indicate their involvement in the preparation of the budget, it is suggested that the signatures of both the project leader and the institution's finance officer appear on the budget submitted to IDRC.

The budget is a monetary expression of the program of activities of the research project. Because the budget follows the research activities closely, it must be based upon careful study or analysis of research activities.

Use of the **Estimating Worksheets** is strongly encouraged, but this budget tool need not be submitted to IDRC. However, IDRC representatives may request them either to verify certain budget items or to facilitate the discussions.

In addition to the technical background, objectives, and methodology, IDRC requires the submission of the **Proposed Budget** and the **Budget Notes**.

As much as possible, IDRC prefers project funds to be administered by the recipient. For reasons of expediency, however, there are circumstances where expenditures are administered by the Centre.

It is desirable that there be a recipient contribution to projects supported by IDRC. This local counterpart of the budget represents the financial commitment of the institution hosting the research

projects. Its inclusion indicates to IDRC the institution's interest in the project and, to some extent, a commitment to pursue the program after IDRC's funding ceases.

The final grant approved by IDRC is expressed in Canadian dollars because the funds come from the Government of Canada. As estimates in the budget are prepared in local currency, all figures are converted into Canadian dollars at the time the project is approved and the exchange rate that was used is noted in the approved budget. Nonetheless, subsequent accounting for project expenditures will still be in national currency.

FINANCIAL REPORTING

This section does not present details of IDRC's financial reporting requirements because these are explained in the "Project Finance and Administration" booklet. However, the financial report must be presented **in the same format** as the budget portion of the grant agreement. It is thus imperative that the budget submitted by the recipient institution be in a form that its staff is able to work with comfortably after the project proposal is approved and implemented. In addition, if the institution's finance officer was involved in drawing up the budget, he or she will better understand the project and the specific items that need to be accounted for and reported.

The financial report presents actual expenditures in the local currency and compares these with the budget. Because the project's budget is originally presented by the recipient in local currency, this comparison is easy and budgetary variances, if any, are highlighted. The financial report must be signed by both the project leader and finance officer of the institution.

In addition to the report of actual expenditures, the estimated expenditures for the next period are also included to reflect changes from the time the project was proposed. These estimates, using more-current cost assumptions, **may** not be the same as the original budget for that period. The same budgeting techniques can be used to estimate the expenditures for the next period.

A sample Financial Report is shown in Appendix 5 assuming the same budget as in Appendix 4.

APPENDICES

1. Example of Planned Activity Sheet
2. Example of Time Chart or Planned Activities in Year 1
3. Example of Estimating Worksheet
4. Example of Proposed Budget
5. Sample Financial Report

APPENDIX 1. Example of Planned Activity Sheet (partial)

	Why	What	When ^a (month)	Where	Who
18	Preoperating stage				
	To prepare the research proposal	Discuss research idea with an IDRC representative	- 9	Base station	Project leader
		Preparation of research proposal and budget	- 7	Base station	Project leader and Finance officer
		Submission of proposal to institution	- 7	Base station	Project leader
		Submission of proposal to and approval by government aid-coordinating agency	- 6	City	Project leader and Institute Head
		Submission and approval of local budget	- 6	Base station	Project leader and Institute Head
		Submission of proposal to and approval by IDRC	- 6	Regional Office and Ottawa, IDRC	Project leader and Institute Head
		Sending and signing of agreement	- 2	Regional Office and Ottawa, IDRC	Regional Director and Institute Head
	
		Identification of personnel	-2	Countrywide	Project leader
		Official IDRC commitment date	0		
19		Recruitment of personnel	1	Countrywide	Project leader
		Assembly of facilities and office	1	Base station	Project leader
	Preliminary study				
	To conduct the study	Notes on review of literature	- 1	City	Project leader
		Preparation of questionnaire	1	Base station	Project leader
		Pretest of questionnaire	2	Test area	Project leader
		Statistical analysis	3	Base station	Project leader
	Schedule of fund releases and reports				
		Initial release	1		
		Second release	6		
		Third release and Reports	12		
		Fourth release	18		

^a Months before (negative) or after (positive) project commencement.

APPENDIX 2. Example of Time Chart for Planned Activities in Year 1 (columns in months)

Activities	-9 to -1	1	2	3	4	5	6	7	8	9	10	11	12
Preoperating													
Discussion of research idea	x												
Preparation of proposal	x												
Submission of proposal to institution	x												
Submission of proposal to and approval by government aid-coordinating agency	x												
Submission and approval of local budget	x												
Submission of proposal to and approval by IDRC	xxxx												
Sending and signing of agreement	xxx												
Identification of personnel	xxxx	xxxxxxxx											
Personnel recruitment		xxxxxxxx											
Assembly of office facilities		xxxxxxxx											
Preliminary Study													
Notes on review of literature	xx												

Preparation of questionnaire		xxxxxxx											
Pretest of questionnaire			xxxx										
Statistical analysis				xxxx									
Preparation of final questionnaire				xx									
Reproduction of questionnaire				xxx									
Administration of survey					xxxx								
Gathering response					xxxx	xxxx							
Tabulation of data						xxxxxxx							
Computer analysis							xx						
Data analysis								xxxxxxxxxxxx	xxxx				
Experiment													
Preparation of experiment stations			xxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx	xxxxxxxx						
Soil preparation								xxxxxxx					
Planting									xxxx				
Growth measurement										xxxx	xxxxxxxx	xxxxxxxx	xxxx
Fund Releases			✓					✓					✓

APPENDIX 3. Example of Estimating Worksheet (partial)

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Activity Code	Time (month)	Activities and material requirements	Amount (in local currency)
Activity B — Preliminary Study			
B-2	1	Preparation of questionnaire Paper (20 reams at 20 in local currency) Mimeographing (200 sets at 0.50 in local currency)	400 1,000
B-3	2	Pretest of questionnaire (100 sets) Piece-work fee for accomplishing each set at 1.50 in local currency (5 students will be engaged) Transportation to 4 pretest areas (5 sets per trip) Area A — 200 (local currency) Area B — 300 Area C — 200 Area D — 300	150 1,000
B-4	3	Statistical analysis Coding services of student helpers Computer cost	500 2,000
B-6	3	Reproduction of final version of questionnaires Paper (100 reams at 20 in local currency) Mimeographing	2,000 5,000
Period Costs		Salaries	
		Project leader (3,000 in local currency per month for 6 months)	18,000
		2 Research assistants (1,400 in local currency per month for 6 months x 2)	16,800
		Secretary/Administrative assistant (800 in local currency per month for 6 months)	4,800

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APPENDIX 4. Example of Proposed Budget (in local currency)

Budget items	Year 1			Year 2			Total		
	IDRC	Other ^a	Recipient	IDRC	Other ^a	Recipient	IDRC	Other ^a	Recipient
Recipient-administered									
Salaries									
Project leader	0		36,000	0		39,600	0		75,600
Research assistants (2)	33,600			36,960			70,560		
Secretary/Administrative assistant	9,600			10,560			20,160		
	<u>43,200</u>		<u>36,000</u>	<u>47,520</u>		<u>39,600</u>	<u>90,720</u>		<u>75,600</u>
Research expenses									
Casual labour	12,800	5,200		8,000	14,000	2,000	20,800	19,200	2,000
Printing and stationery	8,900	6,000	500		500	1,000	9,400	6,000	1,500
Field supplies	6,000			4,000	6,000		10,000	6,000	
Local travel	12,000			10,000			22,000		
Small tools and implements	4,000	16,000		0	15,000		4,000	31,000	
	<u>43,700</u>		<u>500</u>	<u>22,500</u>		<u>3,000</u>	<u>66,200</u>		<u>3,500</u>
Conferences	0			20,000			20,000		
Total recipient-administered	<u>86,900</u>	<u>27,200</u>	<u>36,500</u>	<u>90,020</u>	<u>35,000</u>	<u>42,600</u>	<u>176,920</u>	<u>62,200</u>	<u>79,100</u>
Centre-administered									
Equipment (specify)	25,000			0			25,000		
International travel	<u>15,000</u>			<u>15,000</u>			<u>30,000</u>		
Total Centre-administered	<u>40,000</u>			<u>15,000</u>			<u>55,000</u>		
Grand total	<u>126,900</u>		<u>36,500</u>	<u>105,020</u>		<u>42,600</u>	<u>231,920</u>		<u>79,100</u>

^a Specify source of other contributions.

Notes

1. Other recipient's contributions include office space, existing field equipment, and staff assigned as needed valued at about 100,000 (local currency).
2. Exchange rate CAD 1 : 6.50 (local currency).

APPENDIX 5. Sample Financial Report

Project Title:

Centre File:

Financial Report for the period (1) from _____ to _____

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Items (2)	Budget (3)	Cash expenses (4)	Variance (5)	Explanation of Variance (6)
Salaries				
Research assistants (2)	33,600	33,400	200	
Secretary/administrative assistant	<u>9,600</u>	<u>9,600</u>	<u>—</u>	
	43,200	43,000	200	
Research expenses				
Casual labour	12,800	12,000	800	
Printing and Stationery	8,900	7,000	1,900	
Field supplies	6,000	5,500	500	
Local travel	12,000	11,000	1,000	
Small tools and implements	<u>4,000</u>	<u>3,900</u>	<u>100</u>	
	43,700	39,400	4,300	
Conferences	<u>0</u>	<u>0</u>	<u>0</u>	
Total	<u>86,900</u>	<u>82,400</u>	<u>4,500</u>	

Submitted by:

Project Leader

Institution's Finance Officer

Notes

(1) Covers the immediate past year (twelve-month period).

(2) Use exact budget headings as detailed (including specific budget items) in the Memorandum of Grant Conditions. However, new budget line items should be shown separately.

(3) Use budget figures per the Memorandum of Grant Conditions.

(4) Figures in local currency.

(5) Difference between budget (3) and actual (4).

(6) Reasons for overruns/underruns/new items. Use additional sheet if necessary.

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Summary of IDRC remittances

Date received	Amount	
	Canadian \$	Local currency equivalent
January 4, 19__	6,700	44,220
June 1, 19__	6,700	44,890

Project Title:

Centre File:

Statement of estimated expenses for the Period (1) from _____ to _____

28	Items (2)	Budget (3)	Estimated Expenses (4)	Estimated Variance (5)	Explanation of Estimated Variance (6)
	Salaries				
	Research assistants (2)	36,960	36,700	260	
	Secretary/Administrative assistant	<u>10,560</u>	<u>10,560</u>	<u>—</u>	
		47,520	47,260	260	
	Research expenses				
	Casual labour	8,000	7,500	500	
	Printing and stationery	500	2,000	(1,500)	
	Field supplies	4,000	4,000	—	
	Local travel	10,000	11,000	(1,000)	
	Small tools and implements	<u>0</u>	<u>—</u>	<u>—</u>	
		22,500	24,500	(2,000)	
	Conferences	<u>20,000</u>	<u>20,000</u>	<u>—</u>	
	Total	<u>90,020</u>	<u>91,760</u>	<u>(1,740)</u>	

Submitted by:

Project Leader

Institution's Finance Officer

Notes

(1) Covers the next year (twelve-month period) or for remaining project duration if less than one year.

(2) Use exact budget headings as detailed (including specific budget items) in the Memorandum of Grant Conditions.

(3) Use budget figures per the Memorandum of Grant Conditions. If the original budget had been previously revised after IDRC's approval, the budget figures here should refer to the revised estimates.

(4) Estimates based on latest project plans and current cost expectations in local currency.

(5) Difference between original budget (3) and estimated expenses (4).

(6) Reasons for overruns/underruns. Use additional sheet if necessary.